

Message Text

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SUBJECT: U.S. PROPOSAL FOR ESTABLISHMENT OF TRUST FUND

1. THERE FOLLOWS THE TEXT OF A STATEMENT BY THE U.S.
EXECUTIVE DIRECTOR IN THE INTERNATIONAL MONETARY FUND,
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OUTLINING THE U.S. PROPOSAL FOR ESTABLISHMENT OF A TRUST
FUND TO ASSIST THE POOREST DEVELOPING COUNTRIES. THIS
PROPOSAL WILL BE DISCUSSED BY THE EXECUTIVE BOARD ON
FRIDAY, DECEMBER 20, 1974. POSTS
ARE REQUESTED TO MAKE TEXT OF U.S. STATEMENT AVAILABLE TO
APPROPRIATE HOST GOVERNMENT AND CENTRAL BANK OFFICIALS.
(TEXT IS AVAILABLE IN ENGLISH ONLY. IMF MEMBER GOVERNMENTS
WILL PRESUMABLY BE GETTING A REPORT ON THE PROPOSALS IN
DUE COURSE FROM THEIR EXECUTIVE DIRECTORS.)

2. BEGIN TEXT.

3. INTRODUCTION. IN MY STATEMENT ON IMF OPERATIONS IN 1975, I OUTLINED THE UNITED STATES PROPOSALS FOR DEALING WITH A NUMBER OF CURRENT INTERNATIONAL MONETARY PROBLEMS, WITH THE IMF AT THE CENTER, AND TWO NEW SUPPLEMENTAL FACILITIES: (A) A SAFETY NET FOR OECD COUNTRIES AS PART OF A COMPREHENSIVE COOPERATIVE ENERGY PROGRAM AMONG PARTICIPANTS, AND (B) A TRUST FUND TO PROVIDE CONCESSIONAL

FINANCING TO MEET THE SPECIAL ADJUSTMENT PROBLEMS OF THE POOREST DEVELOPING COUNTRIES. THAT PAPER INDICATED THAT A MORE DETAILED EXPLANATION OF THE TRUST FUND PROPOSAL WOULD BE PREPARED. THIS MEMORANDUM, WHICH IS SUBMITTED AS A BASIS FOR FURTHER DISCUSSION, DEVELOPS THE REASONS FOR ESTABLISHMENT OF A TRUST FUND, AND SUGGESTS PROVISIONS FOR ITS ORGANIZATIONAL FRAMEWORK, FINANCING AND METHOD OF OPERATION.

4. NEED FOR A TRUST FUND. ALL IMF MEMBERS RECOGNIZE THAT SOME OF THE POOREST DEVELOPING COUNTRIES HAVE SERIOUS PROBLEMS ADJUSTING TO CURRENT ECONOMIC CONDITIONS. THESE COUNTRIES, WITH VERY LOW PER CAPITA INCOMES, HAVE LIMITED ACCESS TO INTERNATIONAL CAPITAL MARKETS AND, BECAUSE OF THEIR WEAK ECONOMIES, REQUIRE ASSISTANCE ON SUBSTANTIALLY MORE CONCESSIONAL TERMS THAN NORMAL FOR THE IMF. THIS ASSISTANCE, WHICH WILL BE NEEDED FOR A TEMPORARY PERIOD UNTIL NECESSARY ADJUSTMENTS ARE MADE, MUST INVOLVE APPROPRIATE GRACE PERIODS, LONGER MATURITIES AND LOWER INTEREST RATES. THE IMF PROPER CANNOT, IN FULL MEASURE, PROVIDE THIS COMBINATION OF CONCESSIONAL TERMS THAT IS LIMITED OFFICIAL USE
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REQUIRED IN THIS SPECIAL SITUATION, IN PART BECAUSE OF THE NEED TO MAINTAIN THE PRINCIPLE OF UNIFORMITY IN THE IMF AS PROVIDED FOR IN ITS ARTICLES.

5. THE FRAMEWORK THAT SEEMS BEST SUITED TO PROVIDE THIS COMBINATION OF CONCESSIONAL TERMS, FOR THE RELATIVELY SHORT PERIOD OF TIME IN WHICH SUCH PROVISIONS ARE LIKELY TO BE NEEDED, IS A TRUST FUND ESTABLISHED BY THE MEMBER GOVERNMENTS OF THE IMF AND WITH STAFF SUPPORT FROM THE IMF. THIS FRAMEWORK IS BETTER TAILORED TO PROVIDE THE NEEDED FLEXIBILITY OF TERMS THAN AN INTEREST RATE SUBSIDY ALONE, SUCH AS HAS BEEN SUGGESTED AS PART OF THE PROPOSED OIL FACILITY--QUITE APART FROM THE QUESTIONS RAISED ABOUT EXTENDING THE OIL FACILITY IN MY DECEMBER 6 PAPER. MOREOVER, THE TRUST FUND ARRANGEMENT WOULD ALSO SPREAD THE FINANCING BURDEN AND THE RISK AMONG THOSE COUNTRIES BEST ABLE TO BEAR IT. SUCH A FACILITY WOULD

AVOID THE UNWISE PROLIFERATION OF SPECIAL FACILITIES
WITHIN THE IMF, CREATING ADDITIONAL CLAIMS ON FUND
RESOURCES AND UTILIZING SPECIAL INTEREST RATES, GRACE
PERIODS, AND MATURITIES FOR DIFFERENT MEMBERS.

6. ESTABLISHMENT AND STAFFING. THE TRUST FUND COULD BE
ESTABLISHED BY AGREEMENT AMONG DONOR GOVERNMENTS. THIS
AGREEMENT WOULD CONTAIN THE TERMS AND CONDITIONS ON WHICH
THE TRUST FUND WOULD OPERATE, AND REQUEST THE IMF TO
ALLOW THE IMF STAFF TO SERVE AS THE ADMINISTRATIVE STAFF

OF THE TRUST FUND, WITH THE IMF RECEIVING A FEE TO COVER
THE COST OF STAFF SERVICES.

7. THIS STAFF RESPONSIBILITY IS PROPERLY PLACED IN THE
IMF BECAUSE THE TRUST FUND IS NOT AIMED AT PROVIDING, AS
WILL BE DESCRIBED IN MORE DETAIL BELOW, RESOURCES FOR
DEVELOPMENT PROJECTS OR PROGRAMS. RATHER, IT IS DESIGNED
TO PROVIDE TEMPORARY FINANCIAL ASSISTANCE TO HELP THE
POOREST DEVELOPING COUNTRIES ADVERSELY AFFECTED BY RECENT
PRICE CHANGES TO TAKE THE MEASURES NECESSARY TO ADJUST TO
THESE CHANGES. THE IMF STAFF HAS THE PARTICULAR EXPERTISE
TO ANALYZE SUCH PROBLEMS AND MAKE RECOMMENDATIONS ON THE
PROVISION OF ASSISTANCE TO HELP COPE WITH THEM.

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8. ORGANIZATIONAL STRUCTURE. THE AGREEMENT WOULD PROVIDE
FOR THE ORGANIZATIONAL STRUCTURE OF THE TRUST FUND. FOR
EXAMPLE, THE TRUST FUND COULD HAVE ITS OWN BOARD OF
DIRECTORS, PRESUMABLY NOT EXCEEDING 20 IN NUMBER.
CONTRIBUTING GOVERNMENTS WOULD HAVE APPROPRIATE REPRESENTATION ON THE BOARD.

9. THE BOARD OF DIRECTORS WOULD HAVE GENERAL POLICY AND
MANAGEMENT POWERS, INCLUDING DECISION-MAKING AUTHORITY
ON ALL LOANS. THE IMF STAFF, AS THE ADMINISTRATIVE STAFF
OF THE TRUST FUND, WOULD BE RESPONSIBLE FOR RECEIVING AND
PROCESSING ALL LOAN APPLICATIONS, MAKING THE NECESSARY
ECONOMIC ANALYSES AND RECOMMENDING DECISIONS TO THE BOARD
ON LOAN APPLICATIONS, AS WELL AS CARRYING OUT ALL
ADMINISTRATIVE FUNCTIONS.

10. VOTING POWER IN THE BOARD OF DIRECTORS WOULD BE
PROPORTIONAL TO CONTRIBUTIONS, AND IMPORTANT DECISIONS,
INCLUDING DECISIONS ON PROVIDING ASSISTANCE, WOULD REQUIRE
A TWO-THIRDS WEIGHTED MAJORITY.

11. FINANCIAL ARRANGEMENTS. TOTAL RESOURCES OF THE TRUST
FUND FOR OPERATIONS DURING THE FIRST YEAR MIGHT AMOUNT TO
BETWEEN DOLS 1.5 BILLION TO DOLS 2 BILLION, A SUM WHICH
APPEARS TO BE SUFFICIENT TO SUPPLEMENT OTHER FORMS OF

ASSISTANCE REQUIRED BY THE EXPECTED GROUP OF DEVELOPING COUNTRY RECIPIENTS. WE WOULD ENVISION THAT CONTRIBUTIONS MIGHT BE APPROPRIATELY PROVIDED IN ROUGHLY EQUAL AMOUNTS FROM THE FOLLOWING TWO SOURCES:

--FROM VOLUNTARY CONTRIBUTIONS BY OIL-PRODUCING COUNTRIES AND OTHER IMF MEMBERS OR NON-MEMBERS OF THE IMF IN A POSITION TO MAKE CONCESSIONAL CONTRIBUTIONS;

--FROM USE OF A PORTION OF IMF GOLD, EITHER THROUGH (A)

DIRECT TRANSACTIONS IN GOLD AT THE OFFICIAL PRICE BETWEEN THE IMF AND TRUST FUND OR (B) CONTRIBUTIONS FROM ALL IMF MEMBERS IN PROPORTION TO THEIR IMF QUOTAS, FINANCED BY SUCH MEMBERS FROM GOLD SUPPLIED IN TRANSACTIONS WITH THE LIMITED OFFICIAL USE
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IMF.

THE INTERIM AND DEVELOPMENT COMMITTEES COULD REVIEW, AFTER AN APPROPRIATE PERIOD OF EXPERIENCE WITH THE OPERATION OF THE TRUST FUND, THE ECONOMIC SITUATION OF THE BORROWING COUNTRIES AND CONSIDER WHETHER ADDITIONAL CONTRIBUTED RESOURCES ARE NEEDED.

12. CONTRIBUTIONS WOULD BE ON CONCESSIONAL TERMS. THE TRUST FUND SHOULD PAY INTEREST AT THE SAME LEVEL TO ALL CONTRIBUTING GOVERNMENTS AND AT A RATE RELATED TO THE TRUST FUND'S LENDING RATE TO BORROWERS (LESS AN ADMINISTRATIVE SERVICE CHARGE).

13. IMF SALES OF GOLD AND BORROWING WITH GOLD REPAYMENT. AS SUGGESTED ABOVE, THE IMF MIGHT AID IN MAKING IT POSSIBLE TO FINANCE A PART OF THE RESOURCES OF THE TRUST FUND. A LITERAL APPLICATION OF THE IMF'S POWERS (A) TO SELL GOLD TO A MEMBER FOR ITS CURRENCY, AND (B) TO BORROW CURRENCIES NEEDED IN ITS OPERATIONS EITHER FROM MEMBERS OR FROM OTHER SOURCES, COULD MAKE SUCH ARRANGEMENTS POSSIBLE. A SIMILAR USE OF THE IMF'S REPLENISHMENT POWERS HAS BEEN MADE, AND HAS AGAIN BEEN RECENTLY CONSIDERED, TO HELP MEMBERS AVOID THE GOLD PAYMENTS REQUIRED BY THE ARTICLES IN CONNECTION WITH QUOTA INCREASES. APPLICATION OF THESE POWERS IN THE MANNER DESCRIBED BELOW WOULD ALLOW THE FUND TO MOBILIZE A RESOURCE THAT IS NOT NOW BEING USED WHILE BENEFITING THE IMF'S NEEDIEST MEMBERS.

14. THE ABILITY TO USE IMF GOLD FOR THIS PURPOSE IS DERIVED FROM THE IMF'S PROBABLE NEED TO USE SUBSTANTIAL AMOUNTS OF CURRENCIES IN ITS OPERATIONS IN 1975. A PORTION OF THESE CURRENCIES COULD BE OBTAINED THROUGH IMF PURCHASE OF THE NEEDED CURRENCIES FOR GOLD, OR

THROUGH IMF BORROWING OF THESE CURRENCIES FROM THE TRUST FUND OR OTHER MEMBERS AND IMMEDIATE REPAYMENT OF THE LOAN IN GOLD AT THE THEN CURRENT SDR BASKET RATES FOR THE CURRENCIES INVOLVED. IF IT IS DECIDED THAT THE FUND SHOULD OBTAIN THE NEEDED CURRENCIES IN TRANSACTIONS WITH MEMBERS, IT WOULD BE APPROPRIATE FOR SUCH CURRENCY OR CURRENCIES TO BE OBTAINED NOT ONLY FROM THE MEMBER THAT LIMITED OFFICIAL USE
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ISSUED THE CURRENCY BUT, RATHER, FROM ALL MEMBERS IN PROPORTION TO THEIR QUOTAS, WITH THE CONSENT, WHERE APPLICABLE, OF THE MEMBER WHOSE CURRENCY IS BORROWED.

15. THE IMF NOW VALUES GOLD AT 35 SDR EQUAL ONE OUNCE OF GOLD AND THE FUND IS REQUIRED TO ENGAGE IN THE ABOVE-DESCRIBED TRANSACTIONS IN GOLD FOR CURRENCY AT THIS PRICE. PRIVATE MARKET PRICES FOR GOLD ARE PRESENTLY CONSIDERABLY ABOVE THE IMF'S BOOK RATE. IF THE TRANSACTIONS DESCRIBED ABOVE WERE CARRIED OUT DIRECTLY WITH THE TRUST FUND, IT COULD SELL THE GOLD GRADUALLY IN THE PRIVATE MARKET TO OBTAIN THE CURRENCIES NEEDED TO CARRY OUT THE LOAN TO THE IMF AND THE RESULTING DIFFERENCE BETWEEN THE PRICE AT WHICH THE TRUST FUND SOLD THE GOLD IN THE PRIVATE MARKET AND THE OFFICIAL PRICE WOULD PROVIDE THE TRUST FUND WITH OPERATING RESOURCES. THE TRUST FUND TERMS AND CONDITIONS WOULD PROVIDE FOR A RETURN OF THESE FUNDS TO THE IMF, AS LOANS MADE BY THE TRUST FUND WERE REPAID.

16. ALTERNATIVELY, IN THE CASE OF GOLD TRANSACTIONS WITH MEMBERS, A MEMBER COULD SELL THE GOLD IT OBTAINED FROM THE IMF DIRECTLY TO THE TRUST FUND AT THE OFFICIAL PRICE, AND THE TRUST FUND COULD SELL THE GOLD, AT APPROPRIATE INTERVALS, IN THE PRIVATE MARKET. THE DIFFERENCE BETWEEN THE PURCHASE PRICE TO THE TRUST FUND AND THE PROCEEDS OF THE SALE OF THIS GOLD IN THE PRIVATE MARKET WOULD CONSTITUTE THE MEMBER'S CONTRIBUTION TO THE TRUST FUND. AS ANOTHER POSSIBILITY, A MEMBER COULD MAKE A DIRECT CONTRIBUTION TO THE TRUST FUND, IN AN ACTUALLY CONVERTIBLE CURRENCY, IN AN AMOUNT EQUAL TO THE DIFFERENCE BETWEEN THE PRICE OF GOLD AS PAID TO THE IMF AND THE THEN CURRENT MARKET PRICE.

17. THESE TRANSACTIONS WOULD NOT REQUIRE USE OF LARGE AMOUNTS OF GOLD. FOR EXAMPLE, AT THE MARKET PRICE OF DOLS 178.00 PER OUNCE ON DECEMBER 10, 1974, TO PROVIDE THE TRUST FUND WITH RESOURCES OF APPROXIMATELY DOLS 1 BILLION, WOULD REQUIRE USE OF ONLY ABOUT DOLS 310 MILLION OF IMF GOLD AT THE OFFICIAL PRICE.

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18. REPAYMENT OF CONTRIBUTIONS. TO ASSURE FAIR BURDEN AND RISK SHARING, IT IS SUGGESTED THAT ALL CONTRIBUTIONS SHOULD BE DRAWN DOWN PROPORTIONATELY IN MAKING LOANS. SINCE THE TRUST FUND IS INTENDED TO PROVIDE ONE-TIME TEMPORARY ADJUSTMENT ASSISTANCE, IT IS ANTICIPATED THAT REPAYMENTS WOULD NOT HAVE TO BE RELOANED BY THE TRUST FUND. CONSEQUENTLY, AS LOANS MADE BY THE TRUST FUND ARE REPAYED, EACH CONTRIBUTOR WOULD RECEIVE A SHARE OF REPAYMENTS TO THE TRUST FUND PROPORTIONATE TO USE OF ITS CONTRIBUTION, OR THE FUNDS COULD BE RETURNED TO THE IMF AS INDICATED IN PARAGRAPH 13 ABOVE.

19. QUALIFICATION AS A BORROWING COUNTRY. THE TRUST FUND IS INTENDED TO PROVIDE CONCESSIONAL RESOURCES TO THE POOREST DEVELOPING IMF MEMBERS. ACCORDINGLY, ONLY COUNTRIES WITH LOW PER CAPITA ANNUAL GNP SHOULD BE ELIGIBLE TO BORROW FROM THE TRUST FUND.

20. ELIGIBILITY TO BORROW. IN ORDER FOR A MEMBER THAT HAS QUALIFIED AS A BORROWER TO BE ELIGIBLE TO BORROW FROM THE TRUST FUND, IT SHOULD BE NECESSARY FOR THAT COUNTRY TO DEMONSTRATE, AMONG OTHER CRITERIA ESTABLISHED BY THE DIRECTORS, THAT:

(A) IT WAS EXPERIENCING SEVERE ECONOMIC DIFFICULTIES,

(B) IT WAS MAKING APPROPRIATE USE OF RESERVES AND RECOURSE TO OTHER SOURCES OF FINANCE, PRIVATE AND PUBLIC, AVAILABLE ON REASONABLE TERMS, AND

(C) ITS ECONOMIC PROBLEMS WERE THE RESULT OF EXTERNAL FACTORS RATHER THAN A CONSEQUENCE OF DOMESTIC POLICY.

21. OTHER LENDING CRITERIA. USE OF TRUST FUND RESOURCES WOULD NOT BE RELATED TO IMPLEMENTATION OF PARTICULAR CAPITAL PROJECTS OR GROUPS OF PROJECTS, NOR WOULD THEY BE PART OF PROGRAM LOAN ASSISTANCE DESIGNED TO SUPPORT A GENERAL DEVELOPMENT PROGRAM. NEVERTHELESS, THE BOARD OF DIRECTORS SHOULD BE SATISFIED THAT THE APPLICANT COUNTRY IS IMPLEMENTING APPROPRIATE ECONOMIC POLICIES, THAT ANY IMF ECONOMIC POLICY UNDERTAKINGS ARE BEING

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FULLY CARRIED OUT, AND THAT IT MEETS THE ADJUSTMENT AND OTHER ECONOMIC POLICY REQUIREMENTS PREREQUISITE TO ELIGIBILITY FOR IMF ASSISTANCE IN THE HIGHER CREDIT TRANCHES.

22. LIMITS ON AVAILABILITIES FOR INDIVIDUAL COUNTRIES. MAXIMUM LIMITS ON THE AMOUNT THAT COULD BE BORROWED BY INDIVIDUAL COUNTRIES WOULD BE ESTABLISHED ON THE BASIS OF THE IMF QUOTAS OF PROSPECTIVE RECIPIENTS AS APPLIED TO THE ESTIMATED ANNUAL AVAILABILITIES OF THE TRUST FUND. GIVEN THE POSSIBILITY THAT A PARTICULAR COUNTRY WITH AN EXTREMELY SERIOUS RESOURCE NEED MAY HAVE CALCULATED ACCESS THAT IS RELATIVELY SMALL IN RELATION TO THIS NEED, EXCEPTIONS TO THE LIMITS MIGHT BE MADE IN VERY SPECIAL CASES. OBJECTIVE CRITERIA SHOULD BE DEVELOPED BY THE BOARD OF DIRECTORS TO DETERMINE WHEN AN EXCEPTION IS APPROPRIATE.

23. TERMS. THE TRUST FUND IS REGARDED NOT AS A PERMANENT STRUCTURAL FEATURE OF THE MONETARY SYSTEM BUT AS A DEVICE

FOR DEALING WITH A PROBLEM OF LIMITED DURATION. CONSEQUENTLY, SETTING TERMS THAT ENSURE ITS OPERATION ON A REVOLVING FUND BASIS NEED NOT BE AN OBJECTIVE. IT WOULD BE NECESSARY, HOWEVER, TO KEEP ITS OPERATIONS ON A REPAYABLE BASIS IN ORDER TO ALLOW CONTRIBUTORS TO RECOVER THEIR CONTRIBUTIONS. THE FOLLOWING TERMS APPEAR APPROPRIATE IN LIGHT OF THE TRUST FUND'S PURPOSES AND THE DEBT SERVICE CAPACITY OF THE ELIGIBLE BORROWING COUNTRIES:

(A) MATURITY. SINCE RECOURSE TO THE TRUST FUND WOULD BE CONFINED TO COUNTRIES WITH THE STRUCTURALLY WEAKEST ECONOMIES THAT ARE EXPERIENCING AT THE SAME TIME THE MOST DIFFICULT BALANCE OF PAYMENTS AND OTHER ECONOMIC PROBLEMS, A REPAYMENT PERIOD OF ABOUT 10 YEARS WOULD REPRESENT A SIGNIFICANT IMPROVEMENT OVER THE AVERAGE TERM NOW AVAILABLE TO SUCH COUNTRIES FOR BALANCE OF PAYMENTS ASSISTANCE. REPAYMENT OF PRINCIPAL WOULD COMMENCE, IN INSTALLMENTS, AFTER EXPIRATION OF THE GRACE PERIOD,

ALTHOUGH INTEREST PAYMENTS SHOULD BE MADE DURING THIS LIMITED OFFICIAL USE
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PERIOD. PREPAYMENTS WOULD BE REQUIRED IF THE BORROWER'S ECONOMIC POSITION SUBSTANTIALLY IMPROVED AND CRITERIA SHOULD BE ESTABLISHED FOR THIS PURPOSE.

(B) GRACE PERIOD. A GRACE PERIOD OFFERING RELIEF DURING THE IMMEDIATE CRITICAL PERIOD IS AS IMPORTANT AS THE AVOIDANCE OF TOO SHORT A FINAL MATURITY. A GRACE PERIOD OF ABOUT 4 YEARS WOULD ASSURE MAXIMUM RELIEF DURING THE YEARS OF MAXIMUM PRESSURE.

(C) INTEREST. THE INTEREST RATE ON TRUST FUND ASSISTANCE SHOULD BE CLEARLY CONCESSIONAL. THE RATE CHARGED BY THE

TRUST FUND SHOULD BE THE SAME FOR ALL BORROWING COUNTRIES
AND SHOULD BE BELOW BOTH THE PRESENT FRAMEWORK OF
MINIMUM IMF RATES OF 4-6 PERCENT AND THE OIL FACILITY
MINIMUM OF APPROXIMATELY 7 PERCENT.

24. FURTHER ACTION. WE WOULD HOPE THAT THESE IDEAS
WOULD BE REVIEWED BY THE EXECUTIVE DIRECTORS, AS WELL AS
BY THE INTERIM AND DEVELOPMENT COMMITTEES. IF A
CONSENSUS DEVELOPS, THE DEVELOPMENT COMMITTEE MIGHT
SPONSOR A MEETING OF DONOR GOVERNMENTS, WITH NECESSARY
PREPARATORY WORK DONE BY THE IMF STAFF IN CONSULTATION
WITH THE COMMITTEE. AT THAT MEETING, THIS WORK COULD BE
REVIEWED BY GOVERNMENTS AND AN AGREEMENT COULD BE SIGNED
ESTABLISHING THE TRUST FUND. END TEXT. SISCO

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